

ORIGINAL

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10 DEC 21 PM 3:20

CLERK, U.S. DISTRICT COURT
SOUTHERN DISTRICT OF CALIFORNIA

JLS
DEPUTY

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8 **UNITED STATES DISTRICT COURT**
9 **SOUTHERN DISTRICT OF CALIFORNIA** /

10 **'10 CV 2636**

JLS POR

CASE NO. _____

11 STEPHEN J. DONELL, Permanent
12 Receiver for Learn Waterhouse, Inc.,
its subsidiaries and affiliates,

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14 Plaintiff,

15 v.

16
17 JAMIE FOLEY,

18 Defendant.
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**COMPLAINT TO AVOID
FRAUDULENT TRANSFERS AND
RECOVER PROPERTY
TRANSFERRED; FOR UNJUST
ENRICHMENT AND RESTITUTION**

22 Plaintiff Stephen J. Donell ("Receiver"), receiver for Learn Waterhouse, Inc.
23 and its subsidiaries and affiliates ("LWI"), avers as follows:

24 **I.**

25 **INTRODUCTION**

26 1. Learn Waterhouse, Inc., was a purported investment company created
27 by Randall T. Treadwell.

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IDOCs:13326.5:1144403.1/

**COMPLAINT TO AVOID FRAUDULENT TRANSFERS AND RECOVER
PROPERTY TRANSFERRED; FOR UNJUST ENRICHMENT RESTITUTION**

ERVIN COHEN & JESSUP LLP

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2. Beginning in approximately December 2003 Learn solicited investments from individuals on promises of enormous returns of as much as ten percent per month.

3. Certain individuals, known as Senior Member Representatives (“SMRs”), acted as salespeople, bringing in investors and, in turn, received commissions and/or enhanced returns on their own investments.

4. Other early investors (“Participants”) received a substantial amount of money as purported returns on their investments.

5. LWI was extremely successful in attracting investors and received approximately \$84,000,000 in investments.

6. LWI and several of its principals are defendants in an enforcement action commenced in this Court by the Securities and Exchange Commission (“SEC”) on October 12, 2004, entitled *Securities and Exchange Commission v. Learn Waterhouse, Inc., et. al.*, Case No. 04-CV-2037-W(LSP) (“SEC Action”).

7. The SEC alleges in its complaint that LWI was a Ponzi scheme operated in violation of federal securities laws.

8. On November 1, 2004 Thomas F. Lennon (“Lennon”) was appointed receiver for LWI in the SEC Action.

9. On November 4, 2009 Stephen J. Donnell was appointed as successor receiver for LWI in the SEC Action.

II.

JURISDICTION AND VENUE

10. This Court has jurisdiction over the SEC Action pursuant to sections 20(b), 20(d)(1) and 22(a) of the Securities Act of 1933, 15 U.S.C. §§ 77t(b), 77t(d)(1) and 77v(a), and sections 21(d)(1), 21(d)(3)(A), 21(e) and 27 of the Securities Exchange Act of 1934, 15 U.S.C. §§ 78(u)(1), 78(u)(d)(1), 78u(d)(3)(A), 78U(e) and 78aa.

1 11. This Court has jurisdiction over this action pursuant to 28 U.S.C. §
2 1367 and because this action is ancillary to the SEC Action and the receivership
3 pending before this Court. Donell v. Kowell, 533 F.3d 762 (9th Cir. 2008).

4 12. This action involves the same series of transactions as the SEC Action.

5 13. Venue is proper in this district, because this action is ancillary to the
6 SEC Action and the receivership currently pending before this Court.

7 **III.**

8 **THE PARTIES**

9 14. The Receiver is the duly appointed and acting permanent receiver of
10 LWI, its subsidiaries and affiliated entities. The Receiver was appointed by order of
11 the United States District Court, Southern District of California in the SEC Action.

12 15. Defendant Jamie Foley ("Defendant") is an individual who resides, on
13 information and belief, in Jacksonville, Florida.

14 **IV.**

15 **GENERAL ALLEGATIONS**

16 **A. THE SEC ACTION**

17 16. On October 12, 2004, the SEC filed a complaint against LWI, Randall
18 T. Treadwell, ("Treadwell") Rick D. Sluder ("Sluder"), Larry C. Saturday
19 ("Saturday") and Arnulfo M. Acosta ("Acosta"), accompanied by an Emergency Ex
20 Parte Application for Temporary Restraining Order and Orders: (1) Freezing
21 Assets; (2) Prohibiting the Destruction of Documents; (3) Appointing a Receiver;
22 (4) for Accounting; (5) for Repatriation of Assets; and (6) Order to Show Cause Re
23 Preliminary Injunction ("TRO").

24 17. The Complaint alleges that the Defendant (1) engaged in the offer and
25 sale of unregistered securities in violation of Section 5(a) and 5(c) of the Securities
26 Act of 1933 (the "Securities Act"), and (2) committed fraud in the offer and sale of
27 securities in violation of Section 17(a) of the Securities Act, and (3) committed
28

1 fraud in connection with the purchase and sale of securities under Section 10(b) of
2 the Securities Exchange Act of 1934 and Rule 10b-5 thereunder.

3 18. The Court issued a TRO and an Order to Show Cause why the TRO
4 should not be converted into a Preliminary Injunction and why the appointment of a
5 receiver should not become permanent.

6 19. On November 1, 2004, the Court issued a Preliminary Injunction Order,
7 which continued in effect the terms of the TRO and converted the receiver's
8 temporary appointment to that of a permanent receiver.

9 20. On September 8, 2005, Treadwell, Sluder, Saturday and Acosta were
10 indicted on federal criminal charges of conspiracy and wire fraud. These criminal
11 proceedings were designated as United States District Court, Southern District of
12 California Case No. 05 CR 1570 W.

13 21. In light of the criminal indictment against him, on September 21, 2005,
14 Treadwell filed a motion to stay the civil case pending the conclusion of the criminal
15 proceedings.

16 22. The Court granted Treadwell's motion for a stay, but ordered that the
17 receivership continue and that the terms of the Preliminary Injunction remain in
18 effect, except those provisions which require the defendants to furnish information
19 or records to the SEC or Receiver.

20 23. On April 27, 2006 the Court held the stay applied to the receiver's
21 efforts to recover funds from Participants or others based on LWI's wrongdoing.

22 24. The indictment charged, among other things, that Treadwell and his co-
23 conspirators intentionally concealed from investors that new investor funds would
24 be used to pay back earlier investors.

25 25. The indictment also charged that Treadwell and others caused Cash
26 Cards International, LLC to transfer investor funds received from Acosta's attorney-
27 client trust account back to the same investors, or earlier investors, as ostensible
28 periodic returns on investments.

1 26. On June 17, 2008 Treadwell and others were found guilty of conspiracy
2 and wire fraud as charged in the indictment.

3 27. Following the conviction of all defendants, the stay was lifted on
4 January 12, 2009.

5 28. On March 20, 2009, the Court granted the SEC's motion for summary
6 judgment and entered a judgment of permanent injunction against the individual
7 defendants in the civil case.

8 **B. OPERATION LWI**

9 29. Treadwell, with the aid of Sluder, Saturday and Acosta, through the
10 operation of LWI and affiliated entities, including Wealth Builders Club, Inc. and
11 Quest International, Inc., solicited money from members of the public ostensibly for
12 participation in high-yield trading programs and venture capital investments.

13 30. Certain investors, generally those that invested in LWI early on, were
14 recruited or invited by the defendants to become SMRs.

15 31. SMRs solicited the participation of other investors and were often paid
16 commissions or referral fees in addition to the disbursements on their own
17 investments. Essentially, SMRs acted as sales agents of LWI.

18 32. Participants who invested in the early stages of LWI often received
19 substantial disbursements, as purported returns on their investments.

20 33. The funds obtained by the SMRs and Participants consist of (1)
21 amounts transferred directly to them from LWI and (2) amounts transferred to a
22 company known as Cash Cards International, LLC ("Cash Cards") and then
23 withdrawn by the SMRs and Participants from their accounts at Cash Cards.

24 34. LWI was a Ponzi scheme in which very little of the money obtained
25 from investors was invested in any legitimate investments, and any amounts paid to
26 Participants and SMRs were paid from other investors' funds.

27 35. LWI's only source of revenue was funds from investors.
28

1 36. As a result of the Ponzi scheme perpetrated by LWI and its principles,
2 LWI investors lost millions of dollars.

3 **C. JAMIE FOLEY**

4 37. Defendant obtained funds derived from the Ponzi scheme well in
5 excess of the amount he invested with LWI.

6 38. The prior receiver, Lennon, demanded the return of these funds from
7 Defendant.

8 **FIRST CLAIM FOR RELIEF**

9 **(For Avoidance of and Recovery of Fraudulent Transfers**

10 **Pursuant to California Civil Code Section 3439.04(a)(1))**

11 39. The Receiver reavers and incorporates by this reference paragraphs 1
12 through 38, above, as though set forth herein in full.

13 40. Defendant invested in the LWI investment program.

14 41. Defendant received payments from LWI and/or related entities totaling
15 \$18,485.00.

16 42. Some payments made to the Defendant were directed to entities owned
17 and/or controlled by Defendant including Body Double.

18 43. The payments made to Defendant by LWI and/or its related entities
19 were made with the actual intent to hinder, delay or defraud investors in the LWI
20 investment program.

21 44. Investors in the LWI investment program who did not receive back all
22 of their principal investment are creditors of LWI.

23 45. LWI presently has one or more creditors whose claim arose either
24 before or after the payments to Defendant.

25 46. The payments made to Defendant are avoidable by the Receiver under
26 applicable law, including California Civil Code Section 3439.04(a)(1).

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1 47. The Receiver is entitled to damages from Defendant in a sum of not
2 less than \$18,485.00 with interest as provided by law from the date of each payment
3 made to Defendant.

4 **SECOND CLAIM FOR RELIEF**

5 **(For Avoidance of and Recovery of Fraudulent Transfers**

6 **Pursuant to California Civil Code Section 3439.04(a)(2))**

7 48. The Receiver reavers and incorporates by this reference paragraphs 1
8 through 38, and 40 through 42 above, as though set forth herein in full.

9 49. The payments made to Defendant were made without Defendant giving
10 a reasonably equivalent value to LWI in exchange for the payments.

11 50. At the time the payments were made to Defendant, LWI was engaged
12 in or were about to engage in a business or transaction for which LWI's remaining
13 assets were unreasonably small in relation to the business transaction.

14 51. At the time the payments were made to Defendant LWI believed or
15 reasonably should have believed it would incur debts beyond its ability to pay them
16 as they became due.

17 52. LWI presently has one or more creditors whose claims existed prior to
18 the payments to Defendant.

19 53. LWI presently has one or more creditors whose claims arose after the
20 payments to Defendant.

21 54. The payments to Defendant are avoidable by the Receiver under
22 applicable law, including California Code Sections 3439.04(a)(2).

23 55. The Receiver is entitled to damages from Defendant in a sum of not
24 less than \$18,485.00, with interest as provided by law from the date of each
25 payment made to Defendant.

THIRD CLAIM FOR RELIEF

(For Avoidance of and Recovery of Fraudulent Transfers

Pursuant to California Civil Code Section 3439.05)

56. The Receiver reavers and incorporates by this reference paragraphs 1 through 38, and 40 through 42 above, as though set forth herein in full.

57. The payments made to Defendant were made without Defendant giving a reasonably equivalent value to LWI in exchange for the payments.

58. At the time the payments were made to Defendant LWI was insolvent.

59. LWI presently has one or more creditors whose claims existed prior to the payments to Defendant.

60. The payments to Defendant are avoidable by the Receiver under applicable laws, including California Civil Code Section 3439.05.

61. The Receiver is entitled to damages from Defendant, in a sum of not less than \$18,485.00, with interest as provided by law from the date of each payment made to Defendant.

FOURTH CLAIM FOR RELIEF

(Unjust Enrichment/Restitution)

62. The Receiver reavers and incorporates by this reference paragraphs 1 through 38, and 40 through 42 above, as though set forth herein in full.

63. Defendant received at least \$18,485.00 in payments from LWI.

64. The funds received by Defendant were the proceeds of LWI's Ponzi scheme, and were paid from monies obtained from other investors in LWI.

65. As a result, Defendant has profited from the operation of LWI's fraudulent scheme. If permitted to retain the transferred funds, Defendant would be unjustly enriched at the expense of the numerous LWI investors that, in the aggregate, have lost millions of dollars.

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ERVIN COHEN & JESSUP^{LLP}

1 66. As a proximate result of his actions alleged herein, Defendant has
2 received a benefit to which he was not entitled. Defendant therefore has been
3 unjustly enriched, and the Receiver is entitled to restitution in the amount of
4 \$18,485.00.
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PRAYER

WHEREFORE, the Receiver prays as follows:

1. For judgment against Defendant for \$18,485.00.
2. For interest at the legal rate on the amount of the fraudulent transfers from the date of the transfers.
3. For costs.
4. For such other and further relief as the Court deems appropriate.

Dated: December 14, 2010

Respectfully submitted,

ERVIN COHEN & JESSUP LLP

By: 

PETER A. DAVIDSON,
Attorneys for Stephen J. Donell,
Receiver

ERVIN COHEN & JESSUP_{LLP}

CIVIL COVER SHEET

ORIGINAL

The JS 44 civil cover sheet and the information contained herein neither replace nor supplement the filing and service of pleadings or other papers as required by law, except as provided by local rules of court. This form, approved by the Judicial Conference of the United States in September 1974, is required for the use of the Clerk of Court for the purpose of initiating the civil docket sheet. (SEE INSTRUCTIONS ON THE REVERSE OF THE FORM.)

I. (a) PLAINTIFFS

STEPHEN J. DONELL, Permanent Receiver for Learn Waterhouse, Inc., its subsidiaries and affiliates

(b) County of Residence of First Listed Plaintiff
(EXCEPT IN U.S. PLAINTIFF CASES)

(c) Attorney's (Firm Name, Address, and Telephone Number)

Peter A. Davidson (SBN 76194); Ervin Cohen & Jessup LLP, 9401 Wilshire Blvd., 9th Fl., Beverly Hills, CA 90212-2974

DEFENDANTS

JAMIE FOLEY

10 DEC 21 PM 3:19

County of Residence of First Listed Defendant
(IN U.S. PLAINTIFF CASES ONLY)

NOTE: IN LAND CONDEMNATION CASES, USE THE LOCATION OF THE LAND INVOLVED.

Attorneys (If Known)

10 CV 2636

JLS POR

II. BASIS OF JURISDICTION (Place an "X" in One Box Only)

- ☐ 1 U.S. Government Plaintiff
- ☒ 3 Federal Question (U.S. Government Not a Party)
- ☐ 2 U.S. Government Defendant
- ☐ 4 Diversity (Indicate Citizenship of Parties in Item III)

III. CITIZENSHIP OF PRINCIPAL PARTIES (Place an "X" in One Box for Plaintiff and One Box for Defendant)

- | | | | | | |
|---|----------------------------|----------------------------|---|----------------------------|----------------------------|
| | PTF | DEF | | PTF | DEF |
| Citizen of This State | <input type="checkbox"/> 1 | <input type="checkbox"/> 1 | Incorporated or Principal Place of Business In This State | <input type="checkbox"/> 4 | <input type="checkbox"/> 4 |
| Citizen of Another State | <input type="checkbox"/> 2 | <input type="checkbox"/> 2 | Incorporated and Principal Place of Business In Another State | <input type="checkbox"/> 5 | <input type="checkbox"/> 5 |
| Citizen or Subject of a Foreign Country | <input type="checkbox"/> 3 | <input type="checkbox"/> 3 | Foreign Nation | <input type="checkbox"/> 6 | <input type="checkbox"/> 6 |

IV. NATURE OF SUIT (Place an "X" in One Box Only)

CONTRACT	TORTS	FORFEITURE/PENALTY	BANKRUPTCY	OTHER STATUTES
<input type="checkbox"/> 110 Insurance <input type="checkbox"/> 120 Marine <input type="checkbox"/> 130 Miller Act <input type="checkbox"/> 140 Negotiable Instrument <input type="checkbox"/> 150 Recovery of Overpayment & Enforcement of Judgment <input type="checkbox"/> 151 Medicare Act <input type="checkbox"/> 152 Recovery of Defaulted Student Loans (Excl. Veterans) <input type="checkbox"/> 153 Recovery of Overpayment of Veteran's Benefits <input type="checkbox"/> 160 Stockholders' Suits <input type="checkbox"/> 190 Other Contract <input type="checkbox"/> 195 Contract Product Liability <input type="checkbox"/> 196 Franchise	PERSONAL INJURY <input type="checkbox"/> 310 Airplane <input type="checkbox"/> 315 Airplane Product Liability <input type="checkbox"/> 320 Assault, Libel & Slander <input type="checkbox"/> 330 Federal Employers' Liability <input type="checkbox"/> 340 Marine <input type="checkbox"/> 345 Marine Product Liability <input type="checkbox"/> 350 Motor Vehicle <input type="checkbox"/> 355 Motor Vehicle Product Liability <input type="checkbox"/> 360 Other Personal Injury PERSONAL INJURY <input type="checkbox"/> 362 Personal Injury - Med. Malpractice <input type="checkbox"/> 365 Personal Injury - Product Liability <input type="checkbox"/> 368 Asbestos Personal Injury Product Liability PERSONAL PROPERTY <input type="checkbox"/> 370 Other Fraud <input type="checkbox"/> 371 Truth in Lending <input type="checkbox"/> 380 Other Personal Property Damage <input type="checkbox"/> 385 Property Damage Product Liability	<input type="checkbox"/> 610 Agriculture <input type="checkbox"/> 620 Other Food & Drug <input type="checkbox"/> 625 Drug Related Seizure of Property 21 USC 881 <input type="checkbox"/> 630 Liquor Laws <input type="checkbox"/> 640 R.R. & Truck <input type="checkbox"/> 650 Airline Regs. <input type="checkbox"/> 660 Occupational Safety/Health <input type="checkbox"/> 690 Other	<input type="checkbox"/> 422 Appeal 28 USC 158 <input type="checkbox"/> 423 Withdrawal 28 USC 157 PROPERTY RIGHTS <input type="checkbox"/> 820 Copyrights <input type="checkbox"/> 830 Patent <input type="checkbox"/> 840 Trademark SOCIAL SECURITY <input type="checkbox"/> 861 HIA (1395ff) <input type="checkbox"/> 862 Black Lung (923) <input type="checkbox"/> 863 DIWC/DIWW (405(g)) <input type="checkbox"/> 864 SSID Title XVI <input type="checkbox"/> 865 RSI (405(g)) FEDERAL TAX SUITS <input type="checkbox"/> 870 Taxes (U.S. Plaintiff or Defendant) <input type="checkbox"/> 871 IRS—Third Party 26 USC 7609	<input type="checkbox"/> 400 State Reapportionment <input type="checkbox"/> 410 Antitrust <input type="checkbox"/> 430 Banks and Banking <input type="checkbox"/> 450 Commerce <input type="checkbox"/> 460 Deportation <input type="checkbox"/> 470 Racketeer Influenced and Corrupt Organizations <input type="checkbox"/> 480 Consumer Credit <input type="checkbox"/> 490 Cable/Sat TV <input type="checkbox"/> 810 Selective Service <input checked="" type="checkbox"/> 850 Securities/Commodities/Exchange <input type="checkbox"/> 875 Customer Challenge 12 USC 3410 <input type="checkbox"/> 890 Other Statutory Actions <input type="checkbox"/> 891 Agricultural Acts <input type="checkbox"/> 892 Economic Stabilization Act <input type="checkbox"/> 893 Environmental Matters <input type="checkbox"/> 894 Energy Allocation Act <input type="checkbox"/> 895 Freedom of Information Act <input type="checkbox"/> 900 Appeal of Fee Determination Under Equal Access to Justice <input type="checkbox"/> 950 Constitutionality of State Statutes
REAL PROPERTY <input type="checkbox"/> 210 Land Condemnation <input type="checkbox"/> 220 Foreclosure <input type="checkbox"/> 230 Rent Lease & Ejectment <input type="checkbox"/> 240 Torts to Land <input type="checkbox"/> 245 Tort Product Liability <input type="checkbox"/> 290 All Other Real Property	CIVIL RIGHTS <input type="checkbox"/> 441 Voting <input type="checkbox"/> 442 Employment <input type="checkbox"/> 443 Housing/Accommodations <input type="checkbox"/> 444 Welfare <input type="checkbox"/> 445 Amer. w/Disabilities - Employment <input type="checkbox"/> 446 Amer. w/Disabilities - Other <input type="checkbox"/> 440 Other Civil Rights	PRISONER PETITIONS <input type="checkbox"/> 510 Motions to Vacate Sentence Habeas Corpus: <input type="checkbox"/> 530 General <input type="checkbox"/> 535 Death Penalty <input type="checkbox"/> 540 Mandamus & Other <input type="checkbox"/> 550 Civil Rights <input type="checkbox"/> 555 Prison Condition		

V. ORIGIN

(Place an "X" in One Box Only)

- ☒ 1 Original Proceeding
- ☐ 2 Removed from State Court
- ☐ 3 Remanded from Appellate Court
- ☐ 4 Reinstated or Reopened
- ☐ 5 Transferred from another district (specify)
- ☐ 6 Multidistrict Litigation
- ☐ 7 Appeal to District Judge from Magistrate Judgment

VI. CAUSE OF ACTION

Cite the U.S. Civil Statute under which you are filing (Do not cite jurisdictional statutes unless diversity):

Brief description of cause:

Recover Fraudulent Transfers

VII. REQUESTED IN COMPLAINT:

☐ CHECK IF THIS IS A CLASS ACTION UNDER F.R.C.P. 23

DEMAND \$ 18,485.00

CHECK YES only if demanded in complaint:

JURY DEMAND: ☐ Yes ☒ No

VIII. RELATED CASE(S) IF ANY

(See instructions):

JUDGE Thomas J. Whelan

DOCKET NUMBER 04-CV-2037-W

DATE

12/13/2010

SIGNATURE OF ATTORNEY OF RECORD

FOR OFFICE USE ONLY

RECEIPT # 21435

AMOUNT

\$350.00

APPLYING IFP

(21)

JUDGE

MAG. JUDGE

12.21.10

Court Name: USDC California Southern
Division: 3
Receipt Number: CAS021435
Cashier ID: nsiefken
Transaction Date: 12/21/2010
Payer Name: ERVIN COHEN AND JESSUP

CIVIL FILING FEE

For: ERVIN COHEN AND JESSUP
Case/Party: D-CAS-3-10-CV-002636-001
Amount: \$350.00

CHECK

Check/Money Order Num: 46289
Amt Tendered: \$350.00

Total Due: \$350.00
Total Tendered: \$350.00
Change Amt: \$0.00

There will be a fee of \$45.00
charged for any returned check.